The "Political" Economies of Central America: Foreign aid and Labor remittances

by David Kaimowitz

I. Introduction

Central America's economies passed through four distinct stages between 1900 and 1979. Coffee and banana exports drove economic expansion in the first part of the century. During the depression, world demand for these products declined and the economies turned inward. Traditional exports recovered in the post-war period, and agro-export earnings were diversified. Subsequently the Central American Common Market stimulated a rise in industrial production and intra-regional manufactured exports.

Since 1979, the region's economies have entered a fifth, qualitatively new, stage. Foreign transfers driven by non-market, "political", considerations such as foreign policy concerns and kinship ties are now their most dynamic component. These transfers take the form of foreign assistance and labor remittances and come from governments, non-governmental organizations, and individual laborers. This is particularly true for Nicaragua, El Salvador, and Honduras.

Like the previous stages, the new stage involves addition, rather than substitution. The previous growth sectors still exist. The environment in which they function has changed.

The growth of foreign transfers has implications for macro-economic development strategies, the nature and role of the state, and class structure. Foreign transfers have become as crucial to the region's futur traditional and non-traditional exports and import substitutes. Central American governments are now more: dependent on foreign assistance; interna fragmented and disarticulated; and, perhaps, independent from the national agricultural and industrial bourgeoisies. Families supported by labor remittances, non-traditional export producers, financial intermediaries who channel remittances, refugees, and foreign-financed soldiers and consultants have become social sectors in their own right.

This paper looks at the issues raised by the growing role of foreign transf in Central America. The paper's first section examines the magnitude of foreign transfers. Then the transfers' implications for the debate on macroeconomic development strategies is analyzed. The third and fourth sections focus on the state and class structure.

II. How Much is Being Transferred?

Total net official development assistance to Central America rose from $ 50 million in 1977 to $ 1,818 million in 1985 (OECD, 1979 & OECD, 1987); from equalling 12,5% of regional goods exports to 53% (World Bank, 1979 and 1988).[1] (See table 1). In 1985 it equalled 8% of the region's GDP, and in recent years it has stayed at about that level. The U.S. provides about hal the official foreign aid, mostly in the form of donations. The remainder comes mostly from multilateral organizations, the Soviet Union and Western Europe (Goñi, 1988). (See table 2). Foreign assistance has been particular important in El Salvador, Nicaragua and Honduras, somewhat less so in Guatemala and Costa Rica.

Official foreign aid to the region takes four principal forms: (1) direct balance of payments transfers, (2) project aid, (3) food aid, and (4) provision of capital goods (petroleum, machinery) at subsidized rates. In the 1980s direct transfers of funds and commodities became more important in relation to project aid. Part of the region's massive military assistance should also be considered economic transfers.

Non-governmental aid has also grown. In 1987 there were some 100 foreign NGOs, collaborating with some 600 national NGOs, who provided an estimated $200 million in aid (Levitt Jr. and Picado, 1989).

Estimates of the money sent to El Salvador in 1987 by Salvadoreans working in the United States vary between $200 to $1,300 million (Gorostiaga, 1989; Montes, 1987; Villalobos, 1989; Webb et al, 1988). Survey evidence (Montes, 1987) and extrapolations based on the experience of other countries (Burki, 1984) suggest that the real figure is at least $400 - $500 million, and may be much higher. Eighty percent of Salvadoreans in the U.S. arrived after 1979 (Montes, 1987: 44). Thus, remittances of this scale are a new phenomena.

For Nicaragua the estimates range between $70 million and $300 million (Cavallini, 1989, de la Grange, 1989). Prior to 1987 remittances were of limited importance in Nicaragua's balance of payments. But since that time emigration and remittances have risen rapidly. The Guatemalan Minister of Labor says there are more than 500,000 Guatemalans in the United States, most of whom arrived in the last ten years (Power, 1989). Thus remittances to Guatemala are probably lower than in El Salvador, but higher than Nicaragua.

The combined sum of foreign assistance and remittances may equal almos
quarters of total regional export earnings. In Nicaragua and El Salva
foreign transfers are two or three times larger than total exports. E
Costa Rica and Guatemala, the transfers are not inconsequential.

Transfers of this magnitude are new for Central America. They come at
when the rest of Latin America is moving in the opposite direction, tow
trade surpluses and net capital flows to the developed countries.

A notable feature of the Central American economies historically was th
transparency. Most economic activity was clearly related to agricultur
manufacturing or the service sectors which grew up around them. When
production and prices rose, the economies boomed, when they fell the eco
declined. Increasingly, however, Central Americans live off foreign sav
not the goods and services they or their economies produce.

III. The Macro-Economic Debate

There are three main schools of thought in the current debate about macroeconomic development in Central America. The first school views extra-regional exports, particularly non-traditional exports, as the key the region's economic recovery (Kissinger Report, 1984). It sees import substitution, whether on a national or regional basis, as inefficient protectionism. Little weight is given to the autonomous development of th internal market. This school is largely associated with the United States government and the multilateral lending agencies such as the World Bank an the International Monetary Fund.

The second school gives more weight to the need for regional integration and the expansion of the domestic market (Irvin and Holland, 1988; ECLAC, 1986). This school acknowledges the need to reactivate extra-regional exports, but is skeptical about the possibilities of doing so. Non-traditional exports are seen as fomenting the influence of multinational capital, having negative affects on traditional productive sectors and being unlikely to become large enough to have a major economic impact. This second school is more social democratic and structuralist. Most of the traditional Central American and European social scientists and the international organizations in the U.N. and OAS systems are associated with it.

The third school includes the pessimists such as Weeks (1988). These authors foresee poor prospects for exports, import substitution and growth of the domestic market. They conclude that there is no way out of the current crisis.

International transfers are not important in any of the three schools' basic models. At best, the authors acknowledge the transfers' role in (temporarily) providing liquidity. This added liquidity is taken as an exogenous residual, with negligible affects on other macroeconomic variables.

Economists have failed to acknowledge the transfers' importance for several reasons. Because of the lag in statistical data and its poor quality, many do not recognize the transfers' magnitude. Neoclassical economists are reluctant to accept the possibility of long-term trade imbalances. Some acknowledge the transfers have already been important for a prolonged period, but believe that they are unsustainable in the future.

Many economists view the transfers as temporary responses to an exoge
shock (the military conflicts) similar to a natural disaster. In thi
the transfers are just temporary injections of liquidity. Others see
transfers as political instruments of counter-insurgency and neglect t
economic impact.

Because transfers are politically determined, they are hard to incorpo
endogenous variables in traditional economic models. While there is s
comparative econometric work on foreign assistance and many micro-level
project evaluations, the methodology for evaluating the national or reg
impact of foreign aid is still poorly developed (Riddell, 1987). Most
economists prefer to ignore the transfers or arbitrarily declare them
exogenous and separable from the rest of the economy.

Given the magnitudes presented in section II, the transfers are too impo
to be ignored. Nor will they go away. The Soviets and Cubans have guar
their current levels of economic assistance to Nicaragua through 1992.
falling coffee prices and the recent escalation of the military conflict
Salvador, the United States will probably not greatly reduce its aid in t
short-run. Other donors have already committed large amounts of assistan
for the next few years. While neither the U.S. nor the Soviet Union are
likely to substantially increase their assistance, it is less clear what
be expected from the Europeans, Japanese, and the international agencies.[2]

Labor remittances will almost certainly continue to rise. The large numbe
of Central Americans in the United States serve as contacts for potential
migrants. Such contacts are one of the principal determinants of migration
(Taylor, 1987). Given that "the number of migrants...has been widely

recognized as one of the most important determinants of the volume of flows" (Russell, 1986: 683) future migration will almost certainly be reflected in increased remittances.

If the transfers were sharply reduced, the result, at least in Nicaragua, El Salvador and Honduras, would be a rapid decline in per capita incomes. Montes concluded that, were it not for foreign assistance and labor remittances, the Salvadorean economy would have collapsed long ago (1987: 127). Fagen (1987:31) says that "if current conditions continue, no Central American country will register positive per capita growth between now and 1992...and even this scenario of stagnation cannot be maintained without very substantial levels of external assistance...estimated at approximately $2.3 billion of external (non-military) financing per year for Costa Rica, Honduras, El Salvador and Guatemala. Anything less would result in negative rates of per capita growth".

Even with peace and continued foreign assistance it will be years before the region achieves positive per capita growth rates (ibid). Central America has built up a massive foreign debt over the last ten years. Over $4 billion dollars have left the region in capital flight (Glower, 1987). The military conflicts have greatly damaged the economic infrastructure, lowered productive investment, and created a large mass of refugees who will need to be resettled.

The outlook is not particularly favorable for any of the region's five traditional exports (coffee, bananas, cotton, meat and sugar). Coffee prices fell sharply with the recent collapse of the International Coffee Agreement and there are few prospects for rapid recovery. Sugar and meat exports suffer from weak international markets and declining U.S. import quotas. Central

American cotton producers face stiff competition from other prducers and synthetics and rapidly rising unit costs. As a result cotton exports hav declined throughout the region. Banana exports were slightly higher in 1 than 1981, but long-term growth will be slow.

Non-traditional exports to extra-regional markets would have to increase annually for eleven years simply to replace the current level of official development assistance. Given the region's reliance on imported capital and raw materials, intra-regional trade does not substitute for extra-reg imports. If, in addition, one considers the growing pressure of debt repayment, population growth, and rapid urbanization, there seems to be n medium term alternative to maintaining large international transfers that would not imply dramatic declines in imports and standards of living.

More importantly, the transfers are not neutral contributions to the nati economies. They affect every macroeconomic variable, including relative prices and the pattern of growth.

Although all the Central American government devalued their currencies dur the 1980s, the influx of foreign currency from foreign transfers may have l the real exchange rates from falling even further (Godfrey, 1983:949). Thi favored non-tradeables and imports over exports, and probably delayed prospects for achieving balance in the current account.

By directly financing government budgets, foreign aid lowered the pressure t raise taxes. In 1987, U.S. balance of payments support financed one-quarter of the Salvadorean national budget. Without this aid, the Salvadorean government undoubtedly would have had to increase taxes more than it did.

Foreign assistance has been key in determining the allocation of investment. Development strategy now depends on what donors are willing to fund. The transfers are rationed using political, not market, criteria. Assistance is only available for projects donors are interested in. In recent years it has been much easier to obtain funding for agriculture than for industrial investments or regional integration (United Nations, 1988: 5). U.S. aid has directly favored investment in non-traditional exports over traditional exports, intra-regional trade and import substitution. In Nicaragua foreign assistance played a crucial role in supporting an ambitious public investment programme based on large-scale, capital-intensive agricultural, agro-industrial and energy project. Foreign donors "generally preferred to fund highly visible investment projects, rather than help with immediate production and the maintenance and repair of existing equipment" (Barraclough et al, 1988).

Food aid from the U.S. Public Law 480 program, the World Food Program, Western European governments, and the Soviet Union has become a key component in the regional food balance. It is now a major source of wheat, powdered milk, vegetable oil, and, to a lesser extent rice and other cereals (IICA, 1989). This aid promotes changes in consumption patterns and depresses the prices of national foodstuffs.

Data from El Salvador and the experience of other countries suggest that most remittances are spent on basic staples, consumer durables, construction and opening small businesses (Montes, 1987; Russell, 1986). Remittances have stimulated demand for these goods, although where their supply has been inelastic the results may have been inflationary. Remittances have a high marginal propensity to be used for imports. A large proportion of them (85-90% in El Salvador, Montes, 1987) are channeled through sources other banks. This has promoted the creation of a large and powerful sector of alternative financial intermediaries, in the form of courier companies. I Salvador these companies handled at the very least $100 million in 1985. largest courier company, Gigante Express, alone handled $31,2 million (Wel al, 1988: 49).

Emigration and access to labor remittances affects the supply of labor foi different activities. For example, in El Salvador, "if it had not been fc emigration, the cumulative flow of labor seekers (between 1975 and 1985) have been thee times higher than it actually was" (Webb et al, 1988: 9).

"If no transfer had occurred during the period 1975-1985, income of Salvadoreans...would have fallen 11.1%. However, a computation of Disposa Income, including a [very] conservative estimate of net private unrequited transfers for 1985, shows a drop of only 4.8%. The same computation using [slightly] less conservative estimate but reasonable assumptions on the le of remittances and black market exchange rates yields a drop of only 2.8% the entire decade" (ibid). (Comments in brackets by the author).

As a direct transfer to, relatively, poor sectors of the society, remittanc have a strongly egalitarian effect. "If all remittances (in El Salvador) w directed toward the population within the third to the seventh percentile range, remittances would have increased this group's income by 20.9%, and i share of disposable income from 26.6% to 30.5%. If allocated to families i wider ranged - the third to eight percentiles - remittances would have represented an additional 14.6% in incomes and an improvement in their share of total income of 3.3%. The poorest have probably benefitted first, because even if they sent proportionately fewer emigrants, remittances to those families are almost certainly a greater proportion of their...income. If only 5% of total remittances reach the bottom two deciles, this additional income represents an increase of 4.7 to 6.7 per cent (Webb et al). "No other net inflow of resources to the public at large has historically been as equally distributed over the national population as remittances" (Giliani et al, 1981).

Domestic economic policies take into consideration the reaction of foreign donors. Policies become political symbols which attract or repel donor support. This is certainly the case of the Salvadorean agrarian reform process or the privitization of state-owned companies and financial reform in Honduras and Costa Rica. One reason for maintaining a large private agricultural sector in Nicaragua has been to obtain continued financial support from Western Europe. In some of these decisions donor reactions may have even been the primary criterion. The desire to increase international assistance has even been important in political concessions made in the context of the Central American peace initiatives.

The Salvadorean and Nicaraguan government both actively seek to capture the foreign exchange entering from remittances. El Salvador has lobbied the United States to let Salvadoreans remain in that country, and made it easier to channel remittances through the nationalized banks. The Nicaraguans have opened stores which sell a wide variety of products in dollars. These stores now capture tens of millions of remittance dollars annually. The Nicaraguan decision to devalue and maintain a narrow margin between the official and parallel exchange rates was partly taken to give the Central Bank greater access to remittance dollars. Both Nicaraguan and El Salvador have permitted the, largely unregulated, development of financial intermediaries who trans remittance dollars from the United States to migrants' families.

IV. The Central American State

International transfers may partially change the role of the state. To th extent that surplus comes from abroad and not from national production, th struggles over access to foreign transfers take on greater importance comp to those focused on national production. The Salvadorean military, for example, looks increasingly to its North American benefactors for directio in addition to the traditional local landed interests.

International transfers and capital flight make the bourgeoisie less depen on national production. Increasingly its sustenance comes from reaping re from foreign assistance or its investments abroad. With international agricultural prices low and likely to remain so, land has lost some of its value as a strategic economic resource.

The United States, the World Bank and the IMF have a greater direct role in the economic policies of El Salvador, Costa Rica, and Honduras than at any other time since the Second World War. "As the crisis in foreign commerce become a permanent phenomenon, the presence of extra-regional multilateral bilateral financial organisms in the design of local economic policies has become more systematic" (Timossi, 1989: 12, translation by the author). "Policy dialogues" and conditionality of loans and donations are key instruments for this. In El Salvador and Honduras the U.S. has played a mor direct role, with U.S. advisors writing laws and drafting economic policy documents.

In the specific case of Honduras, Oseguera de Ochoa (1987:83) notes that "North American aid has a presence in practically all the economic, political, social and military decisions in the country; it subsidizes everything from the fiscal deficit to an increasing number of social welfare activities...The U.S. embassy has been converted into the primary distributor of resources in Honduras, to which everyone from the population affected by the "contra" rebels to the politicians, military officials and bureaucrats must appeal to get support for their projects" (translation by the author).

The greater presence of foreign donors in the policy debate does not mean the Central American states and local bourgeoisies have lost all their capacity for independent action. These groups have done well at playing-off the counter-insurgency concerns of the U.S. state department against the structural adjustment agenda of the World Bank, the IMF and certain sectors within USAID (Rivera et al, 1986). National elites have succeeded in resisting foreign pressure to devalue and impose austerity measures in Honduras (Vondal, 1989), to raise taxes in El Salvador and Guatemala (Rivera et al, 1986), and to privitize the Costa Rican Development Corporation (CODESA) (Newton et al, 1988). But there can be little doubt it has changed the policy process and the balance of power on key economic issues.

International transfers has transformed the state apparatus itself. Government ministries designed for other purposes are being reorganized to become more efficient recipients of foreign aid.

Foreign-financed projects have become islands of prosperity in a sea of public sector austerity. They are the only entities within the public sector whic still have adequate funds for operating costs, training and capital investm and reasonable salaries and benefits. In the rest of the public sector, declining real salaries have led to high absenteeism, low morale and rapid turnover.

Donors, rather than the national interest groups served in the past, are becoming public institutions' principal source of legitimacy and feedback. Many government agencies and public employees now feel more accountable to donors than to their own citizens or foreign companies.

It is now more difficult for the public sector to plan its activities. Its effective operations are being reduced to a haphazard collection of externally-financed projects (Wuyts, 1989). The discretionary funds that governments have available to finance activities that are ineligible for foreign financing are declining more rapidly than overall budget cuts might suggest.

Foreign influence in the public sector has negative affects on the use of human resources. "Because of donor insistence on continual, extensive proj supervision and review, and because donors underwrite most of the developme budget, the staff of government agencies will become more answerable to dono 'clients' than to senior policy officials in their own organizations" (Morse 1984: 467). This has aggravated previously existing problems of "bureaucrat feudalism" and poor inter-institutional coordination.

Acquiring, utilizing, and accounting for foreign assistance requires a great deal of planning capacity and other resources, and is an activity for which the traditional Central American states were poorly equipped. "Each donor has its own development goals and each has its own project preparation requirements. Each sends its own project preparation teams out, and each expects to meet with senior government officials. Ways must be found to transport these project preparation teams to the field, and these teams normally expect to be accompanied by a national government official. During project negotiations the government is asked to make a resource commitment to the project...Also it is customary for the recipient government to be asked to provide a project coordinator whose job it is to serve as a liaison between the project and the door...The larger donors demand quarterly and annual reports on project progress. They also require mid-term and ex-post evaluations. These is much talk of getting recipient countries to appreciate the value of monitoring and evaluation, but to date these activities have been tailored to serve the reporting requirements of the donors" (Morss, 1984: 466).

High level Central American officials, including the presidents, now spend much of their time securing foreign assistance. Central America's ministries of agriculture, health, education, transportation, energy and social welfare currently administer hundreds of foreign financed projects, each with its own modalities and administrative requirements. It is not accidental that Nicaragua now has an entire ministry devoted to external cooperation.

The scarcity of personnel trained in project formulation, implementation and evaluation and the sheer complexity of donor requirements have become major constraints on the region's capacity to absorb additional aid. The U.S. General Accounting Office (1985) concluded that El Salvador and Honduras lack "the institutional capacity to efficiently administer complex large-scale projects and the capacity to raise the counterpart funds these project require." Similarly, a recent report by the Sanford Commission (Levitt Jr. and Picado, 1989) recommended that total foreign assistance remain below $2,000 million, because the region has no capacity to absorb more aid.

In some cases foreign donors have established private organizations to carr out functions traditionally handled by the state. USAID has sponsored priv sector foundations to create infrastructure for non-traditional exports, provide vocational training, agricultural research and technology transfer conduct policy reviews. Foreign-financed non-governmental organizations h assumed responsibility for many educational, health, agricultural and community development tasks. John Biehl, a former advisor to President Os Arías of Costa Rica, has even referred to the network of U.S. AID-sponsore institutions as a "parallel state" (Timossi, 1989: 66).

Some donor projects favor decentralization and the development of "civil society". Municipalities and regional governments in Nicaragua and El Salvador have used direct access to foreign funds to take more initiative a become more independent from national governments. Many popular organizati have increased their resource base and power through international support. But these tendencies also limit the national state's capacity to set priorities and implement policies, and this has negative, as well as positi implications. The small size and sheer number of small projects makes it difficult to coordinate efforts and to ensure more even coverage.

These issues go well beyond the traditional discussions about the implementation and impact of foreign assistance. The international transfer great weight in the economy and government budget of Central America means they affect every aspect of the social fabric and the role of the state withi society.

V. Class Structure in the New Society

The new situation has been associated with the growth of specific social groups. These include: families living off remittances, soldiers, displaced people, non-traditional export producers, new financial intermediaries and foreign-financed professionals.

Significant proportions of the Salvadorean, Nicaraguan and Guatemalan populations now receive a large share of their incomes from remittances. One fourth of Salvadorean families receive remittance incomes (Montes, 1987:33). There are now between 800,000 and 1,200,000 Salvadoreans in the United States, a fifth of the country's population. More than a third of all Salvadorean families have at least one relative in the United States, and in almost three quarter of these cases it includes a parent, child, spouse or sibling (ibid:32). The average amount received by each family is $1,535 per year, representing an average of 47% of these families' incomes (ibid: 115). No similar data is available for Nicaragua and Guatemala. But based on the number of people said to have emigrated in recent years probably between 10% and 20% of Nicaraguan families receive remittances, in Guatemala somewhat less.

The emigrant population that sends home money is similar in El Salvador and Nicaragua. They are largely from urban areas (Montes, 1987: 57, Cavallini, 1989). Most are of humble origins by international standards, but they tend to be more educated and have had higher previous incomes than the national averages in their countries of origin. At least in the Salvadorean case there are relatively few children or old people, and a slight, but significant, predominance of males (Montes, 1987:86-91).

The emigrants have left behind relatives (often including spouses and children) who depend on them economically, and whose class position raises interesting questions. In some sense, these family members are internatio welfare cases. In another, they are simply fractions of households who ha found a new way to participate in formal labor markets, mostly in North America. In several countries the logic of the informal sector may be transformed by this new source of income, which has provided the sector wi new sources of demand and capital. This phenomenon goes back many years i Southern Europe, Turkey, and Mexico. But in Central America it has only t on major proportions rather recently (Universidad para la Paz, 1987: 176.)

Since 1978 the armed forces have become a significant occupational group i their own right. The number of government soldiers in Central America rose from 48,000 in 1978 to 175,000 in 1986 (Sohr, 1989). If to this we add so 25,000 or so irregular troops, soldiers now represent some 4-5% of the region's economically active population. There has been a corresponding growth in the number of officers, whose material interests and demand for luxury goods and imports has become an important factor in the economic equation. The great increase in troop numbers was made possible by international assistance. No Central American government could have financ it on its own. Even with a comprehensive peace settlement, which is far fr certain, these groups will continue to have great economic weight.

Refugees are another social group which live on international transfers. Th United Nations High Commission on Refugees (UNHCR) directly maintains some

85,000 Central American refugees inside Central America (Gallardo and Roberto López, 1986). Thousands more are being supported by other foreign donor agencies. The military conflicts, not international transfers, made these people refugees. Nevertheless, for many international transfers have become their sole means of support.

USAID has fostered the growth of a sector of non-traditional export producers, drawn more from the upper middle class than from the traditional oligarchical elites (Timossi, 1989: 65). In addition to promoting the economic conditions for these groups to develop, USAID has directly financed the creation of powerful non-traditional export associations such as CINDE in Costa Rica, FUSADES in El Salvador and FIDE and FEPROEXAAH in Honduras. "Until now these new modern bourgeois groups have not been sufficiently strong to play a hegemonic role in these societies, but their strength is growing" (ibid: 85).

As noted above, the flow of remittance dollars has stimulated the creation of an important new group of financial intermediaries and foreign-financed projects have hire large number of high-paid staff and consultants.

Taken together, the new actors discussed above have significantly altered the region's occupational structure and class configuration. Families dependent on remittances or refugee support and foreign-financed military personnel probably constitute 10-20% of the region's economically active population. Military officers, non-traditional export growers, the new financial sectors and project personnel have become major stakeholders in economic policy.

VI. Conclusion

There is no turning back from the fundamental economic and social transformations which have occurred in Central America since 1979. International transfers will play a major role in these societies for the foreseeable future. If they decline in the short or medium run it will be give way to economic collapse, not a post-war recovery.

International transfers have transformed the macro-economy. They have: (1) limited the fall of real exchange rates, thus favoring non-tradeables and imports over exports, (2) lowered pressure to raise taxes, (3) shifted investment away from regional integration projects and traditional exports towards non-traditional exports, energy and transportation infrastructure a foodstuff production and, (4) depressed farm prices for basic foodstuffs. Remittances have provided income support for large proportions of the Centr American population, fomented an important new financial sector and affecte demand patterns and relative prices.

Transfers have transformed the Central American state. Increasingly politi struggles will be influenced by the desire to get access to these resources. Foreign donors are more directly involved in the economic policy process. T status apparatus itself is being transformed, and project administration has become one of its major functions. Planning and public sector personnel management have become more difficult. In some cases foreign funds have favored decentralization and increased participation, but they have also tended to weaken the core capacity of the state to execute policies.

The transfers have created new social actors and transformed others. These groups' behavior may well alter the political and economic equations of the future.

"Conditions in Central America today don't leave much room to resolve the tension between accumulation and consumption, or between production for export or the internal market. Neither extreme is viable, but no matter what combination is chosen, it is unlikely to succeed without significant international assistance. Assistance is needed to overcome the problems of limited market access, declining terms of trade and the need for technological renovation and adaptation.

This is true no matter what type of structural adjustment is chosen. For example, to promote non-traditional exports requires resources to invest in transportation, storage, refrigeration etc, all of which are necessary for a country to achieve dynamic comparative advantages. The same applies if one seeks to make production for the internal market more efficient. Simple 'economic darwinism', besides being brutal in its conception, is inefficient for dealing with the structural obstacles created by underdevelopment and dependency. It is impossible to begin industrial reconversion without fresh financial resources to adopt new technologies, or to attempt to greatly reduce production costs without new investments in energy and communications projects. Thus, without denying the need to identify strategies for structural adjustment, the issue of external transfers and international cooperation, in all its dimensions, must be a central focus" (Timossi, 1989: 91, translations by the author).

Any serious discussion of Central America's future must address these fundamental issues. It is not enough to repeat the rhetoric of the past, right or left. Many questions remain to be answered, but first they must be asked. Central America's "political economies" require new thinking.

Notes

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1 To qualify as official development assistance a transaction must: a) come from an official agency, b) be administered with the view to promote the economic development and welfare of developing countries as its main objectives, and c) be concessional in character, containing a grant element of at least 25% of the total amount (Goñi, 1988).

2 The possible impact of the the peace process in Central America and the changes in Eastern Europe on the volume of foreign aid is still unclear. Some argue that if peace comes, foreign donors will lose interest in Central America. Others claim that peace will open the door for massive reconstruction aid.

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